LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6698 | **NOTE PREPARED:** Dec 30, 2011
BILL NUMBER: SB 366 | **BILL AMENDED:**

SUBJECT: Capital Access Program and Agency Evaluations.

FIRST AUTHOR: Sen. Simpson | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill requires the Chairperson of the Legislative Council to appoint a committee to evaluate various state agencies and programs on a schedule beginning in 2012 and ending in 2026.

It provides that in 2012 a committee shall evaluate agencies and programs with commerce or economic development matters as their major function, including the Indiana Economic Development Corporation (IEDC). It also provides that any savings resulting from a committee recommendation must be used for the Capital Access Program (CAP).

Effective Date: July 1, 2012.

Explanation of State Expenditures: *Evaluation:* Costs for evaluation would largely remain unchanged by the provisions of the bill, but could increase if multiple topics are selected.

Savings Transfer: If a committee receiving an evaluation concerning economic development or the IEDC makes administrative or legislative recommendations that are estimated to result in cost savings to a state fund, any resulting savings will be transferred by the State Budget Agency to CAP.

Background Information-

Evaluation: Currently, the Legislative Evaluation and Oversight Policy Subcommittee (LEOPS) selects an evaluation topic within a functional area based on a listing of suggested areas in statute. The Legislative

Council adopts the evaluation topic in a resolution. The dates of the listing have elapsed, and the bill updates the dates, adding economic development to the suggestion for evaluation of agencies and programs with commerce as their major function. LEOPS and the Legislative Council may specify an evaluation topic outside of the suggested list. LSA staff prepare the evaluations for consideration by a committee appointed by the Legislative Council to receive the report. Usually, one agency or program is reviewed each year, but LSA has produced as many as four reports in one year when several smaller topics were assigned. LSA has one full-time staff working on evaluation, but other staff members assist as needed.

Capital Access Program: CAP was created in 1992 under IC 5-28-29 to provide capital to small businesses. The program provides reserve funds to lenders to utilize as additional collateral to secure business loans. The IEDC indicates that the majority of the participating financial institutions are community banks. A participating financial institution must establish a reserve account in which premiums paid by borrowers, lenders, and the state on loans the institution enrolls in CAP are deposited. The money in the reserve account is to be used to back the CAP loans enrolled by the financial institution. If a loan is uncollectible and charged off by the financial institution, the money in the reserve account is used to pay the uncollectible loan.

Current statute requires that on CAP loans the borrower must pay a premium of 1.5% to 3.5% of the loan value, and this premium must be matched equally by the financial institution. However, current statute also allows for the financial institution's premium to be paid by the borrower. The IEDC indicates that the loan premiums (borrower and lender share) are typically paid by the borrower, so the premium range for the borrower is essentially 3% to 7% of the loan value. Under current statute, the state matches borrower and lender premiums at a rate of 100% to 300%, depending upon enrolled loan values and borrower type. The state matching funds come from the Capital Access Account.

From the inception of the CAP to its suspension in FY 2009, 3,679 loans have been enrolled totaling about $185.6 M, for an average loan of about $50,000. The premiums paid on these loans have totaled about $6.4 M, with the state match totaling about $8.3 M. A total of 393 loans have been charged off, or about 21 on average per year. The claims against reserve accounts total about $13.2 M, or about $33,600 per loan.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: IEDC.

Local Agencies Affected:

Information Sources:

Fiscal Analyst: Karen Firestone, 317-234-2106.